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Karl
Lyons
Feb 28

PACIFIC WESTERN
AIRLINES

27th Annual Report
1973

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1973 in Brief

(in thousands of dollars)

Financial	1973	1972
Operating revenue	\$72,841	\$57,520
Operating expenses	63,316	49,361
Operating income	5,558	4,803
Provision for future years income taxes	2,295	1,916
Net earnings for the year	1,992	2,120
Cash flow from operations	8,221	6,903
Weighted average number of common shares issued	2,317,721	2,116,845
Earnings per common share before dilution	\$.75	\$.88
Fully diluted earnings per common share	\$.72	\$.78

Operations

Passengers carried		
Mainline	1,625,212	1,194,859
International charter	48,227	40,318
Domestic charter	38,988	26,805
Passenger miles flown		
Mainline	400,417,151	305,085,608
International charter	172,389,686	160,585,886
Domestic charter	48,173,733	26,331,625
Cargo ton miles flown		
Mainline	11,983,362	9,778,999
Domestic charter (excluding Hercules)	3,298,775	3,435,771
International charter (excluding Hercules)	21,620,123	5,572,136
Hercules	19,409,418	23,013,464
Aircraft miles flown		
Mainline	9,272,232	7,858,199
International charter	2,514,195	1,813,611
Domestic charter (excluding Hercules)	1,098,181	997,923
Hercules	2,041,602	2,520,970



Report of the Chairman and President

We are pleased to submit the report of your company's activities for the twelve-month period ending December 31, 1973. The year 1973 was a difficult one. In spite of the best forecasting programs available, traffic on the scheduled mainline services increased by nearly double the measure forecasted. This presented a serious problem in the area of skilled staff, facilities and a shortage of aircraft and related equipment. The demand was for the most part met but the attendant increases in expenses associated with these conditions did not permit the achievement of the desired profit levels. We are pleased to be able to advise, however, that near the end of the year, accelerated training programs and additional aircraft and facilities adequately equipped your company to meet the traffic demands. Consolidated revenues reached \$72,841,000 compared with \$57,520,000 the previous year. During the year, long-term debt increased by \$7,000,000 and together with cash generated from operations of \$8,220,992 enabled

the company to materially add to property and equipment.

Dividends of \$945,499 were declared and paid in the year 1973 on preferred and common shares of your company.

While total revenues exceeded forecast, some operations were adversely affected by conditions beyond the company's control. Ecological pressures, together with economic uncertainties affecting Arctic petroleum exploration, seriously curtailed Arctic resupply flights. The Hercules operations fell short of forecast in the last portion of the year due in large measure to unprecedented rains and warm weather in the Arctic impeding the development and use of the necessary winter air strips.

The International Passenger Charters were 5% below forecast caused mainly by the late publica-

tion of Federal rules on the new A.B.C. (Advance Booking Charters) which were not received until February 15 when they should have been in effect by September of the previous year to allow orderly marketing.

Pacific Western Trucking experienced a serious shortfall in revenues from a forecast of \$5,310,000 to achieved revenues of \$4,273,000. This was occasioned by several factors. Water shipping on the Mackenzie was down approximately 20% which affects all trucking. The impetus given the entire area by much study and talk of a pipeline and possibly a highway to Inuvik encouraged many independent truckers to acquire equipment. Without regulatory controls on licencing or tariffs and the premature acquisition of equipment, the "independents" became formidable competition on price. The above revenues produced a loss of (\$325,877) or 14¢ per common share of Pacific Western.

The inflationary cost spiral has been very disturbing due to the difficulty controlling many areas. As an example, the escalation in fuel prices caused by the world wide energy crisis resulted in increases ranging between 20%



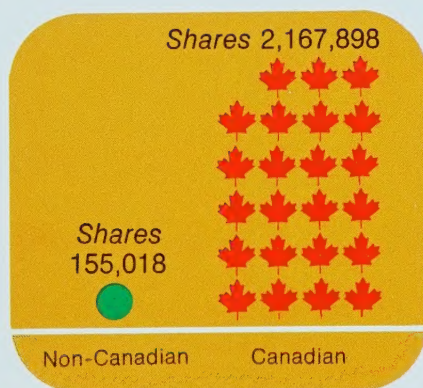


and 53% and in the last quarter this escalation cost an additional \$813,000. Some offsets have been made in controllable cost areas and tariff prices increased where possible. Effective December 1, 1973 we were able to get Canadian Transport Commission approval for 6½ % increase on about 65% of the system, but the one month did not yield much opportunity in 1973 to offset the spiral which intensified in the last half of the year. An additional increase of 7½ % (net) on the 35% balance of the system has been filed to be effective March 1, 1974.

The distribution of shares continued to reflect the very high Canadian content of your company's ownership.

SHAREHOLDERS

As of December 31, 1973



It is our expectation that the dedicated and enthusiastic employees of the company are totally equipped to meet the challenges of 1974 and will contribute materially to the achievement of the desired results.

Respectfully submitted,

B. C. SAMIS, *Chairman of the Board*

D. N. WATSON, *President*

PACIFIC



General Manager's Report

GENERAL COMMENT

1973 was a year of expansion reflected not only in the growth of revenues, but also in the addition of three aircraft including the replacement 707-320C, and also the addition of major new office and hangar facilities. The resulting increase in workload required a further growth in the airline staff which stood at 1907 at year end, an increase of 210 over the same date in 1972.

A seventh Boeing 737-200 was added in December 1973 and, after use as a substitute on scheduled services to allow maintenance checks on other aircraft, will be integrated into the fleet when the 1974 summer schedule is introduced in April.

This autumn your company had the opportunity to obtain a Hercules heavy freighter aircraft from Delta Airlines which was added to the Pacific Western Hercules fleet in October. This additional aircraft should allow the bulk of the Arctic lift to be provided from the company's own resources and thus eliminate, or substantially reduce,

the past requirement to lease Hercules aircraft each winter and spring to augment our fleet.

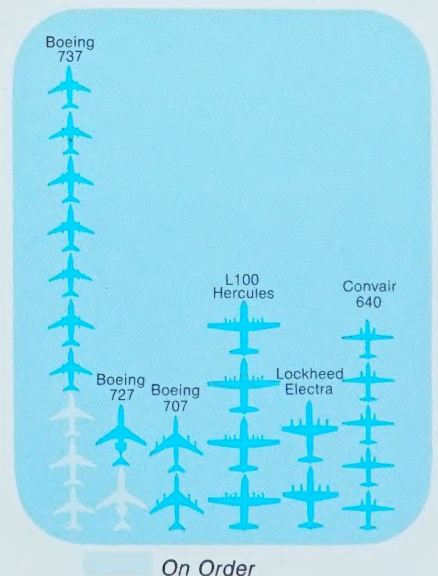
Firm orders were placed in 1973 for additional aircraft for our scheduled services with future delivery dates. These were for a second 727-100C in convertible passenger/cargo configuration which will go into service in April 1974. This acquisition will double the tri-jet capacity in the fleet and will more than replace the leased L-188 Electra which was returned to its owners in June 1973. A Boeing 737-200 (number 8) is on order for August 1974 delivery and two Boeing 737-200's (numbers 9 and 10) for delivery in March and April 1975. These aircraft are required to provide the necessary uplift capacity on scheduled services if we are to handle properly traffic as forecast in our 1973 revision to our five year fleet plan.

The last piston engined aircraft (the 2 Grumman Mallard Amphibians) in the company's fleet were sold in December 1973 to West Coast Air Services, who are oper-

ating the Coastal amphibious services under contract from Pacific Western Airlines.

The company fleet currently consists of 5 Convair 640's, 2 Lockheed L-188 Electra's and 4 L-100 Hercules, all jet-prop powered. 7 Boeing 737 twin fan jets, 1 Boeing 727 tri-jet, 1 Boeing 707 passenger jet and 1 Boeing 707

CURRENT FLEET



cargo jet. In addition the 1 Boeing 727 tri-jet and 3 Boeing 737 fan jets are on order for future as mentioned.

OPERATIONS

While mainline revenues exceeded forecast by more than two million dollars and international cargo operations were ahead by more than 8%, International Passenger Charter operations were \$270,000 below forecast. This shortfall can be attributed mainly to the new Federal rules on A.B.C. (Advance Booking Charters) which were not promulgated until February 15, 1973 when we should have been in the market by September of the previous year to obtain maximum sales. Northern Canada resupply charters and domestic Hercules operations were down due to factors beyond your company's control. These aircraft are employed by the Arctic oil exploration companies to a major extent. Reduction in Arctic oil exploration has a corresponding effect on this activity.

During the year a major change in operations was introduced with the computerization of all reservations controls. Early in January arrangements were completed to contract from Air Canada the use of sufficient of the Reservac II computer facility to provide this service throughout the Pacific Western system. This new service



was named "Alfie" (Airline Flight Information Electronics). In February a full training program was commenced and by April the first on line test of the system was completed and all outside stations became fully reliant on Alfie. On May 4 the cut over to computer operations took place with the new central reservations office located in the Board of Trade Tower in downtown Vancouver. Reservations functions at Kelowna, Kamloops, Penticton and Calgary were consolidated in Vancouver at this time. At the end of September the Edmonton reservations operation was moved to Vancouver, thus centralizing all reservations services. It is interesting to note that over 2.2 million telephone calls were processed by this facility in 1973.

Complete re-organization of Pacific Western Trucking was accomplished during the year. Changes in operational, accounting and management procedures have placed this segment of the organization in a position where it can react quickly and profitably

to increased demand for trucking service in the North. The future development of the Athabasca tar sands should have an even more important and favorable impact on this part of the operation than on the airline.

ROUTES

Service to High Level, Alberta, was licensed by the Air Transport Committee and commenced in June. The traffic to this point to date has been very encouraging and should continue to improve. The airport at Rainbow Lake is unsatisfactory and can accommodate larger aircraft only during the winter months. The Ministry of Transport has recently amended the airport licence, reducing the runway length to 3500 feet. This will bar any aircraft of the types operated by Pacific Western and as a result an application has



been made to suspend service to that point when breakup renders the airport unserviceable.

Our application for a one-stop service from Vancouver to Edmonton via Kelowna was denied during the year by the Air Transport Committee. This decision has been appealed to the Minister and we are now awaiting the outcome of our appeal.

The Canada / United States bilateral agreements have been concluded, however the designation of the Canadian carriers to the new routes by the Canadian government has not yet been made public.

For many years service to Dawson Creek, B.C. has been provided with Convair turbo prop equipment. We have applied to upgrade this to Boeing 737 jet service and if government approval is obtained will make the change on April 29, 1974.

NEW FACILITIES ACQUISITION

Acquisition and renovations of the former CP Air complex located immediately adjacent to the company facilities in Vancouver were completed during the year. The open landscape concept of office arrangement was used wherever possible, providing the greatest possible flexibility in layout and allowing for future changes at minimum cost. Building No. 1 now houses the company executive offices, overhaul hangar, stores and training facility including the

Boeing 707 flight simulator acquired during the year. Building No. 2 is the line maintenance hangar and also provides space for shops and additional parts storage. The accounting, personnel, payroll and contract sales offices, together with all operations offices, were transferred to the newly acquired complex. The flight kitchen and cafeteria were also moved to the new premises.



In May the Edmonton offices were moved into new facilities in the Edmonton Inn Tower. This office is also landscaped and provides a much better work environment than was the case in the old airport terminal building.

The increase in the number of aircraft operating through Edmonton, and based in that city, has overtaxed our present maintenance facilities. Your company has entered into an agreement with

the City of Edmonton under which the City is constructing a new hangar which will be leased by Pacific Western. This new facility is now under construction with completion scheduled for August 1974.

The Explorer Hotel in Yellowknife, N.W.T., a new one hundred and fifty room hotel now being built on land owned by your company, is planned to open in the spring of 1974 and will provide much needed space that should stimulate more travel, particularly during the tourist season. There will be a Pacific Western ticket office in the lobby of the hotel.

TRAINING

Training of new personnel and recurrent training of regular staff continued at a steady pace throughout the year. The addition of the Boeing 707 flight simulator, together with more extensive use of a Boeing 737 simulator, has reduced aircraft time needed for flight training resulting in substantial cost savings to your company while maintaining the high level of competency required in this very sophisticated industry.

During the year 214 training courses were conducted involving 1,224 employees. The new classrooms provided in our remodeled building resulted in a much improved training environment.

Training was also provided at our facilities during the year for personnel from Transair – Winnipeg, Great Lakes Airlines – Sarnia, International Jet Air – Calgary and Trans Provincial Airways – Terrace, allowing greater utilization of training staff and providing an additional source of income.



PERSONNEL

Relations between the company and the various Union groups representing the employees continue to be good. The Federal Department of Labour in a recent issue of its newsbulletin singled out Pacific Western and its employees as an example of the kind of harmonious co-operative relationship that should be the goal of all labour and management groups.

The improved work environment due to the new facilities at both Vancouver and Edmonton, together with such innovations as the introduction of 'gliding time' for office staff and a four day work week for maintenance employees, has improved morale and lessened absenteeism and staff turnover.

There is no doubt that once again the high level of morale, enthusiasm and co-operation of all employees made significant contributions to your company's progress during the year.

FUTURE OUTLOOK

Mainline traffic continues to meet or exceed projections. The continuing growth in traffic requires the equipment commitments made, to enable the provision of satisfactory service to all communities enroute. Charter and contract results, so vulnerable to local weather vagaries and to



government and industry decisions in resource areas, continue to be difficult to predict. The heightened activity in the tar sands developments and the likelihood of firm decisions on Arctic activity, particularly the gas pipeline, augur well for increased activity in these areas.

During the year the number of countries into which Pacific Western operated rose to more than seventy. Although the International A.B.C. charter activity has been slowed by a combination of factors, including inflation and other conditions in Europe, the inclusive tour market to sun spots in Mexico and Hawaii continues at a high level.

The energy crisis has caused concern both from a fuel supply and fuel price point of view. We have to date been able to obtain the necessary fuel supplies, but the world shortages together with escalating prices require a high proportion of management time. These higher fuel prices, together with the increasing cost of all goods and services purchased and higher wages and salaries, have forced increases in our fare structure. The first of these took place on December 1, 1973 and further increases will be inevitable next year. Technological advances in the air transportation industry are no longer able to offset the effect of the inflation spiral.

No adverse effect on our traffic has been experienced since the December fare increases. We are confident that the continuing demand for the resources of the areas in which we operate will enable your company to continue to grow profitably during the forthcoming years.



Respectfully submitted,

W. R. HARRIS



Progress Graphs

Dollar Distribution 1973



Revenue Percentage
 Trucking operations 5.9
 Charter 29.4
 Mainline 64.7

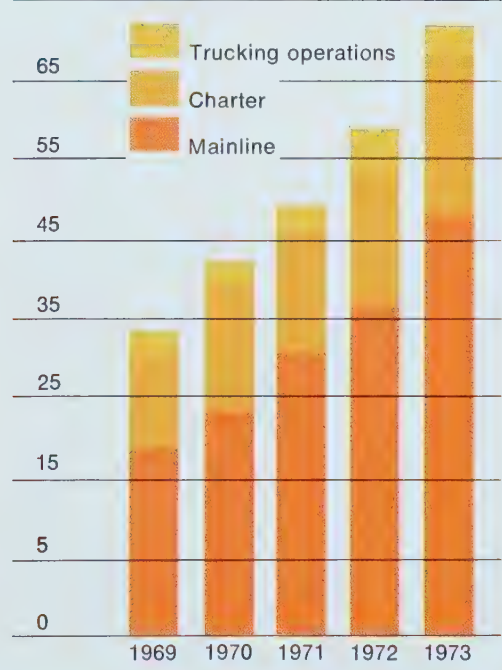
Expenses Percentage
 Net earnings 2.7
 Provision for future years' income taxes 3.2
 Depreciation and amortization 5.5
 Interest 2.9
 Trucking operation expenses 5.8
 Other operating expenses 11.0
 Insurance 2.0

Landing fees and ground handling 5.1
 Maintenance material services purchased 9.5
 Aircraft rentals 8.2
 Fuel and oil 12.6
 Salaries and wages 31.5

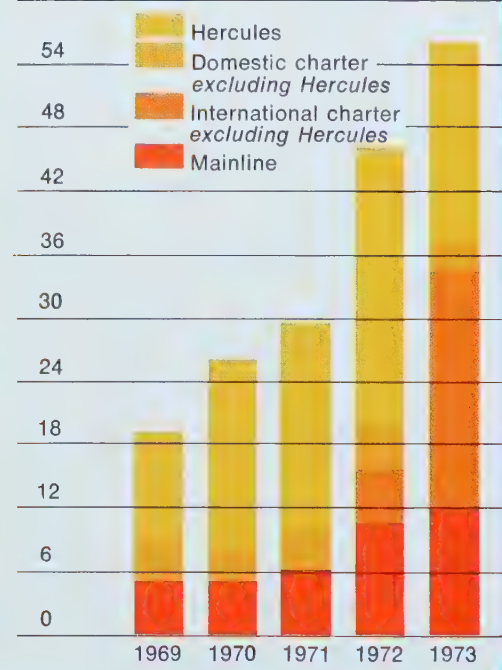
Passengers Carried
Thousands



Revenue
Millions



Cargo Ton Miles
Millions



Consolidated Balance Sheet

December 31, 1973 (with comparative figures for 1972)

ASSETS

	1973	1972
Current assets:		
Cash and short-term bank deposits	\$ 3,204,407	3,619,044
Accounts receivable	10,357,658	8,242,551
Inventory of parts, material and supplies at the lower of cost or net realizable value	1,890,208	1,450,399
Prepaid expenses	746,413	951,990
Total current assets	16,198,686	14,263,984
Rental deposits on leased flight equipment	2,115,591	1,959,255
Property and equipment, at cost less depreciation:		
Flight equipment	45,614,658	34,869,876
Land, buildings and ground facilities	10,578,927	7,139,355
	56,193,585	42,009,231
Less accumulated depreciation and provision for overhauls	13,290,058	10,104,732
Property and equipment, net	42,903,527	31,904,499
Deferred charges less amortization	1,162,404	1,197,170
Investments, at cost, and other assets	123,681	110,281
Goodwill, at cost	2,190,067	2,130,074
	\$64,693,956	51,565,263

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current liabilities:		
Bank indebtedness, secured by a general assignment of a subsidiary company's accounts receivable	\$ 400,000	280,000
Accounts payable and accrued expenses	9,044,772	7,495,078
Accrued wages and vacation pay	1,349,197	1,115,317
Dividend payable	348,437	288,334
Current portion of long-term debt (Note 2)	4,161,881	3,237,053
Unearned transportation revenue	433,690	511,812
Total current liabilities	15,737,977	12,927,594
Long-term debt (Notes 2 and 3)	27,201,100	20,224,612
Income tax provisions in respect of future years (Note 1(g))	6,366,719	4,071,483
Shareholders' equity:		
Capital stock (Note 4)	8,589,861	8,589,861
Retained earnings, per accompanying statement (Note 5)	6,798,299	5,751,713
Total shareholders' equity	15,388,160	14,341,574
Commitments and contingencies (Notes 8 and 9).		
	\$64,693,956	51,565,263

On behalf of the Board:

C. W. BRAZIER, Q.C., Director

D. N. WATSON, Director

Consolidated Statement of Earnings

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Operating revenues:		
Mainline:		
Passenger	\$40,467,713	30,234,755
Cargo	4,751,481	4,070,789
Mail	1,422,992	1,234,007
Truck - Air	502,151	716,253
Total mainline	47,144,337	36,255,804
Charter	21,424,026	16,973,665
Trucking	4,272,955	4,290,558
Total operating revenues	72,841,318	57,520,027
Operating expenses:		
Flying operations	27,544,333	20,734,710
Maintenance	11,632,478	9,219,195
Customer service	12,971,112	9,765,997
Trucking operations	4,231,955	4,020,177
Marketing	2,708,172	2,057,019
General and administrative	4,228,236	3,563,623
Total operating expenses	63,316,286	49,360,721
Operating income before depreciation and amortization	9,525,032	8,159,306
Depreciation	3,422,844	2,734,250
Amortization of introductory costs	544,407	621,708
	3,967,251	3,355,958
Operating income	5,557,781	4,803,348
Other income	841,026	790,429
Interest on long-term debt and financing expenses	(2,111,486)	(1,558,144)
Earnings before income taxes	4,287,321	4,035,633
Provision for future years income taxes (Note 1(g))	2,295,236	1,915,956
Net earnings	\$ 1,992,085	2,119,677
Earnings per common share (Note 6)	\$.75	.88
Fully diluted earnings per common share (Note 6)	\$.72	.78

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Balance at beginning of year	\$ 5,751,713	4,484,792
Net earnings	1,992,085	2,119,677
	7,743,798	6,604,469
Dividends:		
Preferred	249,618	263,285
Common	695,881	571,933
	945,499	835,218
Cost of issuing and sub-dividing common shares, net of income taxes	—	17,538
	945,499	852,756
Balance at end of year	\$ 6,798,299	5,751,713

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Funds provided by:		
Operations:		
Net earnings	\$ 1,992,085	2,119,677
Add charges not requiring cash expenditure	6,228,907	4,783,288
Funds provided by operations	8,220,992	6,902,965
Long-term debt	14,121,200	12,002,681
Disposal of equipment	631,584	895,471
Issue of common shares (not including \$119,770 (1972 — \$2,689,345) resulting from conversions and exchanges)	—	503,250
Other	—	115,142
Total funds provided	22,973,776	20,419,509
Funds applied to:		
Property and equipment	15,029,317	12,626,626
Long-term debt	7,144,711	5,975,442
Dividends	945,499	835,218
Introductory costs of new aircraft and services and debt financing expenses	625,537	651,379
Other	104,393	—
Total funds applied	23,849,457	20,088,665
Increase (decrease) in working capital	(875,681)	330,844
Working capital at beginning of year	1,336,390	1,005,546
Working capital at end of year	\$ 460,709	1,336,390

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1973

1. ACCOUNTING POLICIES:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries which are: Pacific Western Airlines (Alberta) Ltd., Aero Engineering Limited, Byers Transport Limited, B.C. Air Lines Limited, and P.W. Trucking Ltd. All material inter-company transactions have been eliminated.

(b) Conversion of foreign currencies:

Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at the balance sheet date.

(c) Depreciation:

Depreciation is provided on a straight-line basis except for capitalized aircraft spare parts where a diminishing balance basis is used, to reduce original cost of assets to estimated residual value over their service lives which are subject to periodic review.

(d) Repairs and maintenance:

Provision is made for major flight equipment overhauls based on hours of use, except Boeing 737 and Electra aircraft where no provision is made because the planned life cycle does not entail a periodic major overhaul, but instead, requires periodic shop visits and repair. Costs of overhaul are charged firstly to these provisions and the balance, if any, charged to earnings except for the pro-rata portion of the costs applicable to pre-acquisition hours which are capitalized. Repairs, renewals and replacements of routine nature are charged to earnings while those expenditures which improve or extend the useful life of assets are capitalized.

(e) Deferred charges:

Initial flight crew training expenses on the introduction of new types of aircraft and pre-operating costs of new routes and services are deferred and amortized to earnings on a straight-line basis over five years. The amount of unamortized expenses of this nature at December 31, 1973 was \$1,134,389.

Costs of obtaining long-term debt financing are deferred and amortized over the term of the financing.

(f) Goodwill:

Management is of the opinion that none of the recorded goodwill, which arose in prior years on acquisition of subsidiaries and routes, has diminished in value and will be written-off only if it ceases to be of value. During the year a subsidiary was assessed additional income taxes of \$59,993 pertaining to the years prior to acquisition, accordingly the goodwill arising on the acquisition of this subsidiary has been increased by this amount.

(g) Income taxes:

The company has claimed for tax purposes certain deferred charges and capital cost allowance in excess of depreciation recorded in the accounts. Effective January 1, 1968, in accordance with a recommendation of the Canadian Institute of Chartered Accountants, the company decided to adopt for 1968 and future years the policy of charging to earnings a provision for future years income taxes which may arise from these timing differences. The balance at December 31, 1973 of unrecorded future years taxes relating to these differences is \$1,800,000.

Future income tax benefits of approximately \$130,000 which may accrue to two subsidiaries, Byers Transport Limited and P.W. Trucking Ltd., have not been recorded in the consolidated accounts. At December 31, 1973, the income tax value of the depreciable assets of these subsidiaries exceeded the value recorded in the accounts by approximately \$124,000 and there were approximately \$135,000 of income tax losses in these subsidiaries which are available for reduction of income taxes in the future. Of the losses referred to above, \$6,000 expire in 1977 and the balance in 1978.

2. LONG-TERM DEBT:

	Total	Due within one year	Non- current
Parent company:			
10 $\frac{7}{8}$ % - 11 $\frac{7}{8}$ % (prime plus 1 $\frac{3}{8}$ % to 2 $\frac{3}{8}$ %) bank term loans payable by monthly, quarterly, semi-annual and annual instalments up to December, 1980, secured by chattel mortgages on various aircraft and by a general assignment of accounts receivable	\$17,575,743	2,862,320	14,713,423
10% (prime plus $\frac{1}{2}$ %) revolving term bank loan maturing 1975	3,000,000	—	3,000,000
6% term loans payable to Export - Import Bank of United States by semi-annual instalments commencing November 15, 1977 on loans of \$4,424,369 and by semi-annual instalments commencing July 15, 1979 on loans of \$2,390,887. Guaranteed by certain Canadian Banks who hold chattel mortgages on various aircraft (U.S. — \$6,840,578)	6,815,256	—	6,815,256
Lease-purchase obligations on various flight equipment payable by monthly and quarterly instalments including interest, at various dates up to April, 1982	1,252,896	439,405	813,491
Non-interest bearing agreements for sale payable \$250,000 annually to May, 1976	750,000	250,000	500,000
7% notes payable, secured by debenture on assets of B.C. Air Lines Limited, payable \$250,000 annually to August, 1975	500,000	250,000	250,000
Other agreements, payable at various dates	155,748	53,565	102,183
Total parent company	30,049,643	3,855,290	26,194,353
Subsidiary company, secured by specific and floating charges on property and equipment of the subsidiary:			
7% debenture payable April, 1974	90,000	90,000	—
Bank loan	900,000	100,000	800,000
Other mortgages, notes and agreements, payable at various dates and bearing interest at various rates	323,338	116,591	206,747
Total subsidiary company	1,313,338	306,591	1,006,747
	<u>\$31,362,981</u>	<u>4,161,881</u>	<u>27,201,100</u>

The company has issued under a Deed of Trust and Mortgage a debenture in the principal amount of \$5,000,000 and pledged the same as general security for its loans from the Canadian Imperial Bank of Commerce. This Trust Deed constitutes a specific charge on the Convair 640 aircraft and spare parts and a floating charge on all of the company's assets and undertaking. The Mercantile Bank of Canada also holds, as additional security for its loans, debentures providing a floating charge on all assets of the company, subject to the prior charge of the Canadian Imperial Bank of Commerce referred to above.

3. DEBT MATURITY:

Maturities of long-term debt for the next five years are as follows:

1974	\$ 4,161,881
1975	7,126,938*
1976	4,059,750
1977	3,351,831
1978	4,317,068
	<u>\$23,017,468</u>

* Includes \$3,000,000 revolving term bank loan.

Notes to Consolidated Financial Statements, continued

December 31, 1973

4. CAPITAL STOCK:

\$2.20 redeemable preferred shares Series A without nominal or par value. Authorized 120,000 shares; outstanding 111,860 shares	\$ 3,299,870
Common shares without nominal or par value. Authorized 5,000,000 shares; issued 2,322,916 shares ..	5,289,991
	<u>\$ 8,589,861</u>

The \$2.20 redeemable preferred shares Series A are redeemable on or after December 1, 1976 at the option of the company at \$31.70 per share up to and including November 30, 1977, reducing by \$.44 in each year thereafter to \$29.50.

Each of the \$2.20 redeemable preferred shares Series A is exchangeable at the option of the holders at any time on or prior to December 1, 1978 for four common shares. During the year the holders of 4,060 of these shares with an aggregate value of \$119,770 exchanged their shares for 16,240 common shares.

447,440 common shares are reserved for exchange of the 111,860 \$2.20 redeemable preferred shares Series A.

5. DIVIDENDS:

The Articles of Association of the company pertaining to the \$2.20 redeemable preferred shares Series A contain, among other provisions, a restriction on the payment of dividends on common shares. Under this restriction, retained earnings of \$6,512,000 as of December 31, 1973 are available for the payment of dividends.

6. EARNINGS PER COMMON SHARE:

The per share figures have been computed by dividing the net earnings after accrual of preferred share dividends by the weighted average number (2,317,721; 1972, 2,116,845) of common shares outstanding during each year.

In calculating fully diluted earnings per share, the weighted average number of common shares outstanding has been calculated assuming all preferred shares outstanding at December 31, 1973 had been exchanged for common shares on January 1, 1973. Net earnings used in this calculation reflect the reduction of preferred share dividends resulting from this assumption.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration of directors, senior officers and certain operating personnel of the company, as defined by the B.C. Securities Act, amounted to \$441,239 for the year 1973, of which \$7,000 represents directors' fees paid in 1973.

8. COMMITMENTS:

(a) Minimum annual rentals under long-term lease agreements in effect at December 31, 1973 for certain flight equipment including 9 aircraft are approximately \$5,800,000 in each of the next five years, \$4,800,000 in 1979, \$4,400,000 in 1980, \$2,000,000 in 1981, \$1,100,000 in 1982, and \$500,000 in 1983.

(b) The company has the following commitments:

(i) to acquire three Boeing 737 aircraft and related equipment for delivery in September, 1974, February, 1975 and March, 1975 at an estimated cost of U.S. \$19,332,000. The company is negotiating long-term financing for these acquisitions.

(ii) to lease a Boeing 727 aircraft for delivery in February, 1974 for a period of eleven and one-half years at an anticipated annual rental of \$510,000 per year with an option exercisable on or after December 31, 1983 to acquire the aircraft for 20% of cost.

(iii) to lease a hangar at Edmonton Industrial Airport for a period of 20 years at an anticipated annual rental of \$150,000 per year.

- (iv) for Federal sales tax on aircraft and engines imported during 1973 in the amount of \$692,000. Long-term financing has been arranged for the full amount.
- (c) With respect to employee pension plans, the company has an approximate liability at December 31, 1973, of \$1,121,000 for past service benefits. This amount is payable at the rate of approximately \$8,400 a month to December, 1986 and thereafter \$7,500 a month to December, 1991. The company is charging this amount to operations as it is paid.
- (d) As part of an agreement for the management of its trucking division, the company in January, 1973 granted an exclusive option exercisable on May 31, 1974 to purchase a 50% equity in its trucking division at a price to be determined in accordance with the agreement.

9. CONTINGENCIES:

- (a) An action has been brought by an individual against the company for \$526,425, being \$500,000 general damages for repudiation of contract and \$26,425 special damages. Counsel for the company is of the opinion that the ultimate liability, if any, will not be significant and plans to apply to have this action dismissed for want of prosecution.
- (b) Judgment has been rendered against the company in a test action brought by three company stewardesses claiming overtime and holiday pay. As negotiations are still being conducted with respect to the amounts to be paid to the plaintiffs, counsel for the company and management of the company are unable to determine the ultimate liability. No provision for this liability has been recorded by the company.
- (c) A similar action brought by company pilots claiming overtime and holiday pay is awaiting the outcome of the action taken by the company stewardesses. Counsel for the company and management of the company are unable to determine the ultimate liability and, as such, no liability has been recorded by the company.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia
January 31, 1974

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

10 Year Summary

(all figures in thousands)

FINANCIAL STATISTICS

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Mainline revenue	\$47,144	\$36,256	\$30,185	\$23,496	\$17,978	\$11,082	\$10,308	\$ 8,583	\$ 7,133	\$ 5,563
Contract and charter revenue										
Hercules — cargo	8,928	7,974	7,742	7,019	5,597	1,823	1,425	—	—	—
International — charter	8,310	5,487	4,741	7,962	5,463	3,747	1,548	1,813	1,870	1,338
Multi-engine aircraft (excluding International and Hercules)	4,186	3,512	2,686	2,065	2,337	919	1,097	1,021	827	662
Single-engine aircraft						47	556	782	1,675	1,279
Trucking operations	4,273	4,291	2,945	2,847	2,500	—	—	—	—	—
Total revenue	\$72,841	\$57,520	\$48,299	\$43,389	\$33,875	\$17,618	\$14,934	\$12,199	\$11,505	\$ 8,842
Funds provided by operations	8,221	6,903	5,503	3,575	2,435	2,054	2,184	1,606	1,041	691
Depreciation and amortization	3,967	3,356	2,799	3,087	2,058	1,389	1,336	480	395	367
Equipment purchased	15,029	12,627	2,879	2,822	13,650	1,701	6,949	6,016	1,454	703
Income taxes										
Current	—	—	—	—	—	—	—	(57)	310	8
Future years (Note 1)	2,295	1,878	1,494	(162)	194	242	237	500	119	113
Gain (loss) on disposal of equipment (after provision for future years income taxes) (Note 2)	9	43	(22)	(69)	440	110	91	292	24	49
Net earnings (loss)	1,992	2,120	1,438	(232)	584	311	317	734	461	180
Reduction of long-term debt	7,145	5,975	6,758	2,861	3,821	1,889	2,641	1,295	344	375
Dividends										
Preferred shares	249	263	57	64	64	64	67	70	70	124
Common shares	696	572	232	—	—	—	—	—	—	—

OPERATING STATISTICS

Mainline										
Passengers carried	1,625	1,195	1,037	789	627	371	364	302	230	180
Cargo carried (lbs.)	35,395	31,375	21,595	18,732	15,987	11,408	12,158	10,582	12,429	9,787
Passenger miles flown	400,417	305,086	256,452	209,007	168,068	95,426	92,909	77,877	56,813	43,347
Ton miles flown	49,887	40,288	31,971	26,455	21,834	13,097	12,939	11,035	9,202	6,961
Aircraft miles flown	9,272	7,858	6,922	6,065	5,501	3,191	3,732	3,217	2,844	2,426
Contract and charter										
Hercules aircraft miles flown	2,042	2,521	2,050	1,992	1,288	578	563	—	—	—
International charter miles flown	2,514	1,814	1,530	2,603	1,750	1,117	670	744	842	726
Other multi-engine aircraft miles flown	1,098	998	940	851	908	484	544	657	466	399

Note 1: In order to present a proper comparison of earnings, the presentation of earnings for 1964 to 1967 has been amended to reflect the amount of future years income taxes applicable to each year.

Note 2: Gain (loss) on disposal of fixed assets before provision for future years income taxes in 1973, 1972 and 1971 was included in "Other Income" in the 1973, 1972 and 1971 Statements of Earnings. However, to be consistent with our ten year summary the gain or loss on disposal has been reclassified for 1973, 1972 and 1971.





BRITISH COLUMBIA

Bella Bella
Bella Coola
Campbell River
Castlegar
Nelson
Trail
Comox
Courtenay
Cranbrook
Kimberley
Dawson Creek
Grand Forks
Kamloops
Kelowna
Vernon
Namu
Ocean Falls
Penticton
Port Hardy
Powell River
Prince George
Prince Rupert
Quesnel
Sandspit
Smithers
Tahsis
Terrace
Tofino
VANCOUVER
Victoria
Williams Lake

ALBERTA

Calgary
Edmonton
Fort Chipewyan
Fort McMurray
Fort Smith
High Level
Peace River
Rainbow Lake

SASKATCHEWAN

Uranium City

NORTHWEST TERRITORIES

Cambridge Bay
Fort Resolution
Fort Simpson
Hay River
Inuvik
Norman Wells
Resolute
Wrigley
Yellowknife

**HERCULES POINTS
OF CALL 1973**

U.S.A.
Seattle

DIRECTORS

B. C. SAMIS

Chairman of the Board

Director, Dominion Securities,
Investment Dealers,
Vancouver, B.C.

W. J. BORRIE

Chairman, Pemberton Securities Ltd.,
Investment Dealers,
Vancouver, B.C.

C. W. BRAZIER, Q.C.

Partner, Davis & Company,
Barristers & Solicitors,
Vancouver, B.C.

J. D. HAGAR

Investment Dealer (Retired),
Vancouver Island, B.C.

W. R. HARRIS

Vice-President and General Manager,
Pacific Western Airlines Ltd.,
Vancouver, B.C.

E. W. KING

President, Canadian Utilities Ltd.,
Edmonton, Alberta

D. H. SEARLE

Partner, Searle & Finall,
Barristers & Solicitors,
Yellowknife, N.W.T.

R. D. SOUTHERN

President, ATCO Industries Ltd.,
Calgary, Alberta

D. N. WATSON

President, Pacific Western Airlines Ltd.,
Vancouver, B.C.

HEAD OFFICE

Vancouver International Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.
Victoria, B.C.
Edmonton, Alta.
Regina, Sask.
Winnipeg, Man.
Toronto, Ont.
Montreal, Que.

BANKERS

Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

OFFICERS

D. N. WATSON

President

W. R. HARRIS

Vice-President and General Manager

G. J. COOKE

Vice-President, Customer Services

R. T. EYTON

Vice-President, Northern Region

D. F. GRANGER

Vice-President, Finance and Secretary

D. R. JACOX

Vice-President, Administration

R. L. LAKE

Vice-President, Technical Services

J. C. S. MILES

Vice-President, Operations

A. J. MOUL

Vice-President, Marketing

J. M. ROBINS

Vice-President, Corporate Planning

R. W. BENALLICK

Treasurer

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

SHARES LISTED

Vancouver Stock Exchange
Toronto Stock Exchange

SUBSIDIARY COMPANIES

(Wholly owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Byers Transport Limited
B.C. Air Lines Limited
P. W. Trucking Ltd.

SENIOR STAFF

HEAD OFFICE

D. J. ALMAS	Director, Economic Planning
K. E. BJORGE	Director, Contract and Charter
W. J. BRYAN	Director, Engineering and Maintenance Services
E. M. CARON	Director, Airport Services
T. W. CROSS	Director, Training
W. DOBIN	Director, Maintenance, System
K. FRANSBERGEN	Director, Flight Operations
K. E. GRAY	Director, SOC Center
A. W. HARDEN	Director, Safety and Insurance
R. A. MOORE	Director, In-Flight and Catering Services
R. J. NOON	Director, Reservations and Ticket Offices
E. E. PEZZOT	Director, Operational Planning
L. SAMBELL	Director, Special Projects
C. H. STEWART	Director, Quality Control
F. H. TOY	Director, Communications
F. A. WELBOURN	Director, Personnel Development
R. W. WILSON	Director, Materiel Control
A. W. CORBETT	Controller
R. G. BARNES	Manager, Administration and Planning, SOC Center
R. BISHOP	Manager, Cargo Charter Sales
R. BURROW	Chief Dispatcher
J. M. CARTER	Manager, Financial Information and Cost Analysis
J. CHILDS	Technical Project Manager
A. CRAIG	General Credit Manager
R. W. CULLEN	Manager, Passenger Charters
J. DEARN	Manager of Stores
B. ELLSWORTH	Manager of Tariffs
G. EMERY	Manager of Engineering
G. M. GARVIN	Manager, Public Relations and Advertising
G. V. HELTEN	System Sales Manager, Domestic and Interline
C. JARVIS	Manager, Flight Operations Administration
R. KINCH	Manager, Baggage Services and Claims
H. LUTHER	Manager, Data Processing
G. MANN	General Sales Manager
J. M. MILES	Manager, Passenger Charter Sales
B. F. MULLER	Manager, Passenger Charter Operations
A. PEARCE	Manager, Personnel
M. E. PEEBLES (MRS.)	Manager, Employee Benefits
D. R. PENGELLY	Manager of Purchasing
G. PETRI	Manager, Catering Services, System
N. R. PRICE	Manager of Property and Facilities
W. SHUFFLEBOTHAM	Manager, Cargo Charter Operations
D. TOY (MRS.)	Manager, Office Services, System
J. V. R. WARK	Manager, Internal Audit
R. G. WATERHOUSE	Manager, In-Flight Services, System
M. WATERS	Manager, Reservations Services
J. WILKINSON	Manager, Reservations Procedures

WESTERN REGION

D. DELHAYE	District Manager, Airport Services (Central and Northern B.C.)
R. HAYES	District Sales Manager, Vancouver
J. PACKHAM	Manager, Air Cargo Services, Vancouver
H. PORTER	Maintenance Manager
I. RENNIE	District Sales Manager, Interior
T. ROSS	District Manager, Airport Services (Coastal B.C. and Seattle)
A. YEATES	Chief Inspector
W. WRINCH	District Manager, Properties and Facilities

Customer Services Managers

B. BRAY	Ocean Falls
S. BULLOCK	Prince George
A. COBURN	Victoria
B. W. EHMAN	Castlegar
L. FILIPEK	Campbell River
C. FOWLER	Kelowna
H. FRANK	Comox
R. GILLETT	Vancouver
D. HANEMAN	Cranbrook
J. HUIBERS	Kamloops
D. MITCHELL	Smithers
G. NICOLL	Dawson Creek
G. RADFORD	Powell River
R. SHELTON	Penticton
G. SNIDER	Williams Lake
L. STANNARD	Seattle
J. TESSMER	Port Hardy
M. VEILLETTE	Sandspit
R. WALKER	Quesnel

NORTHERN REGION

J. BISAILLON	District Manager, In-Flight Services
A. C. CAMPBELL	Assistant to Vice-President, N.R.
G. CANNAM	Maintenance Manager
D. FISCHER	Regional Manager, Airport Services
H. HERBERT	District Manager, Public Relations and Advertising
R. HORNER	District Sales Manager, Edmonton
W. HOWIE	Manager, Hercules Operations
K. IRVINE	District Manager, Airport Services (Northern Alberta, Calgary and Dawson Creek)
J. IVENS	District Manager, Airport Services, NWT
L. JONES	Manager, Air Cargo Services, Edmonton
R. B. MACKIE	Manager, Flight Operations
H. POWELL	Chief Inspector
V. TREICHEL	District Sales Manager, Calgary
E. WEISBROD	District Manager, Catering Services
G. WADE	District Manager, Properties and Facilities

Customer Services Managers

J. BLAIR	Norman Wells
T. DANYLUK	Uranium City
N. DeHOOG	Fort McMurray
A. EVANS	Fort Smith
T. HOLT	Resolute Bay
B. LAMBERTSON	Calgary
G. McFADDEN	Peace River
G. McCOWAN	Cambridge Bay
D. McNEILL	Edmonton International
B. MERRYWEATHER	High Level
D. MILLER	Fort Simpson
G. ODDLEIFSON	Hay River
J. S. PATERSON	Edmonton Industrial
G. SCHRIEBER	Rainbow Lake
D. SHINNAN	Inuvik
J. WARMAN	Yellowknife

PACIFIC WESTERN TRUCKING LTD.

M. FOX	General Manager
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